

ELECTRONIC ARTS
Q3 FY16 PREPARED COMMENTS
January 28, 2016

CHRIS:

Thank you.

Welcome to EA's fiscal 2016 third quarter earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO. Peter Moore, our COO, will be joining us for the Q&A portion of the call.

Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, and a transcript.

A couple of quick notes on upcoming events: we're holding our Investor Day on Tuesday, May 17, at our Redwood City headquarters. This will be a great opportunity for members of the financial community to hear from our senior management team and meet with them in an informal environment. In addition, Blake will be presenting at the Morgan Stanley conference on Tuesday, March 1, and our Q4 and year-end earnings call is scheduled for Tuesday, May 10.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, January 28, 2016, and disclaims any duty to update them.

During this call, unless otherwise stated, the financial metrics will be presented on a non-GAAP basis. Our earnings release and the earnings slides provide a reconciliation of our GAAP to non-GAAP measures. These non-GAAP measures are not intended to be considered in isolation from, as a substitute for, or superior to our GAAP results. We encourage investors to consider all measures before making an investment decision. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

Now, I'll turn the call over to Andrew.

ANDREW:

Thank you, Chris.

Q3 FY16 was a great quarter for Electronic Arts. Across all key platforms, we delivered amazing new game experiences for our players and live services that enabled them to play more of the games they love. Non-GAAP revenue and earnings were above our guidance for the quarter, and we are raising our full-year non-GAAP guidance as we continue our strong momentum into the final quarter of the year.

Our highlights from the holiday quarter capture how players are engaging across the increasing breadth and depth of games and services from Electronic Arts:

- Q3 was a breakthrough quarter for our partnership with Disney and Lucasfilm on the Star Wars franchise. With **Star Wars Battlefront**, our team at DICE delivered a game with amazing visual fidelity, unmatched authenticity and true Star Wars action fantasies that are fun for fans of all ages. It became the largest launch ever for a Star Wars game, and exceeded our guidance for the full year. The journey is just beginning for Battlefront fans – earlier this week, we announced our first free content update as well as the four expansion packs to come for *Star Wars Battlefront*, and there are many new experiences in development for every player in the growing community.
- Star Wars fans are deeply engaged in our experiences on mobile and PC as well. On mobile, **Star Wars Galaxy of Heroes** quickly built a strong player base after it launched in November, reaching the top 5 most-downloaded iOS games in more than 130 countries. On PC, our **Star Wars: The Old Republic** community has grown to the highest subscriber level in nearly three years, driven by the latest digital expansion, *Knights of the Fallen Empire*. More great content is on the way for players in each of these experiences, as well as new *Star Wars* titles for multiple platforms in development across the company.

- Continuing the mobile momentum, **Madden NFL Mobile** is a cultural hit that topped the U.S. App Store charts over the holiday period. Player engagement is thriving, with monthly active players up nearly 50% year over year and our live events driving two-and-a-half times more games played over the previous year. *Madden NFL Mobile* continues to illustrate the opportunity for sports games on mobile devices. Just as we've demonstrated on other platforms, great sports experiences will ignite fans' unbridled commitment to the teams and sports they love, driving deep engagement over time. Building on the success of *Madden NFL Mobile*, we are excited to bring more compelling EA SPORTS experiences to our players on mobile devices.
- As the top game publisher on PlayStation 4 and Xbox One consoles in the western world for calendar year 2015, EA continues to captivate players with some of the world's biggest and most popular franchises. **Madden NFL 16** was the #1 sports title in the U.S. and **FIFA 16** was the #1 title across all genres in Europe for calendar year 2015. Player engagement continues to grow across our entire **EA SPORTS portfolio**, with monthly active players growing more than 10% year-over-year in the third quarter. And the return of **Need for Speed** delivered for racing and car culture enthusiasts, with more than twice as many monthly active players in Q3 compared to our previous game.
- Live services are at the core of how we help our players connect with each other and stay engaged in their favorite games longer. Our **EA SPORTS Ultimate Team** services continued to engage more fans year-over-year in Q3, driven in part by new experiences like FUT Draft in *FIFA 16* and Draft Champions in *Madden NFL 16*. We also continue to see long-term engagement across **Battlefield 4** and **Battlefield Hardline** – in Q3, our players logged more than 150 million hours of *Battlefield* gameplay.
- Our subscription programs represent a key opportunity to connect players to even more great games. **EA Access** continues to grow in subscribers, and more than 60% of those players have used EA Access to try a game they haven't previously played. Based on the success of EA Access, we've just launched **Origin Access**, expanding our subscription programs to the PC platform. Early reaction for Origin Access has been equally positive, and it's clear that our global player base sees value in this innovative approach to playing more games.

EA Access and Origin Access are great examples of how EA is working to help players with one of the more compelling challenges in entertainment today. In a world that sees more competition than ever for our players' time, we are focused on delivering services that reduce friction and barriers to discovery, allowing them to maximize the time they have to play their favorite games or try something new. Through deeper relationships, we can help more players connect to vibrant communities, access more games and content, and engage in experiences that are meaningful, personal and fun.

In Q3, we captivated players with stunning new experiences and more great content for the games and services they love. Now, I'll hand the call over to Blake for a deeper look at our financials.

BLAKE:

Thanks, Andrew.

EA's non-GAAP net revenue was \$1.803 billion, which was \$28 million above our guidance. The quarter's revenue was 26% higher than the prior year's, primarily driven by *Star Wars* Battlefront and *Need for Speed*, but also by growth across the breadth of our portfolio, including Ultimate Team, mobile and catalog.

Star Wars Battlefront surpassed our full fiscal year guidance of 13 million units, which includes over a million units bundled with consoles. On a constant currency basis, revenue would have been up 35% year on year.

Our non-GAAP digital net revenue for the quarter increased 16% year-over-year to a record \$807 million, 45% of this quarter's revenue. It was also a record for the trailing twelve month period, and was up 11% to \$2.42 billion. Breaking down our digital revenue into its key components highlights the performance of each of these businesses this quarter:

- Extra content and free-to-play contributed \$360 million, up 15% over the prior year. The principal driver of the growth was Ultimate Team. In particular, *FIFA Ultimate Team* showed strong growth, up 8% year on year, or 18% year on year at constant currency. *Madden Ultimate Team* and *Hockey Ultimate Team* also grew. Finally, *FIFA Online 3*, our PC free-to-play title for China and Korea, continues to perform well and is tracking to our

expectations.

- Mobile generated \$162 million in the quarter, up 17% year on year. Our big launch during the quarter was *Star Wars Galaxy of Heroes*, and it has performed extremely well, a great start for our newest live service. In addition, *Madden NFL Mobile* was in the top three grossing apps in the U.S. on the iOS app store through the important Christmas period and peaked at number one on Christmas Day. The two join our broad portfolio of strong revenue-generating titles, which also includes *SimCity BuildIt!*, *The Sims FreePlay*, *The Simpsons Tapped Out*, *Need for Speed No Limits*, and *Real Racing 3*.
- Full game PC and console downloads generated \$195 million, up 39% over the prior year, driven by *Star Wars Battlefront*, offset by FX. *Star Wars Battlefront* was our largest digital launch ever, although it did lean more towards physical copies over the full quarter as holiday gift-giving became the dominant driver of purchases. Note that revenue from the large number of copies sold bundled with consoles is counted as physical revenue even though they are distributed as digital codes, and it will be recognized in the fourth quarter.
- Subscriptions, advertising, and other digital revenue contributed \$90 million, down 10% from last year, due to the natural decline in the recognition of *Battlefield 4 Premium* revenue. However, *EA Access* is delivering strong, sustained growth, and we launched a similar PC subscription service, *Origin Access*, in January. Our most recent update to *Star Wars: The Old Republic* has fueled subscriber growth with its rich content and deep story-telling.

Moving on to gross margin: our non-GAAP gross margin for the quarter was 70.4%, down from last year's 72.8% and 110 basis points below our guidance. The decrease from last year was driven largely by mix, with *Dragon Age: Inquisition* last year compared to the royalty-bearing *Star Wars Battlefront* this year. We had factored into guidance our expectation that *Star Wars Battlefront* would be a strong gift-giving title, but it skewed even more physical than we had anticipated. The other significant driver of the margin shortfall versus guidance this quarter was also a positive: the strong performance of our royalty-bearing console and mobile games, which triggered greater royalty expenses than expected.

Non-GAAP operating expenses for the quarter were \$511 million, down \$10 million year on year, driven by FX. At constant currency, opex would have been up \$22 million, driven chiefly

by increased investment in marketing to support the bigger launches this quarter compared to a year ago. The improvement on guidance was driven by phasing and continued cost control.

The resulting non-GAAP diluted EPS was \$1.83 per share, which is \$0.08 better than guidance due to our strong top line performance and continued cost management.

Our cash and short-term investments at the end of the quarter were \$3.23 billion, or approximately \$10.42 per share. 51% of this cash and short-term investment balance is held onshore. This is down from 57% held onshore last quarter, the difference being partly driven by stock repurchases and settlements of early redemptions of our convertible notes.

During Q3, we **settled \$95 million in early conversions** of our convertible notes. Through December 31, we redeemed \$293 of the \$633 million total and as of yesterday we've received notices of an additional \$177 million to settle in Q4. We have updated the dilution table on our website accordingly.

We also **repurchased 1.8 million shares at a cost of \$126 million**, leaving \$672 million in our two-year, \$1 billion buyback program we began in May 2015. The current rate of repurchases keeps us on track to complete the full \$1 billion in that time.

Net cash provided by operating activities for the quarter was \$889 million. This is, by a significant margin, the largest quarterly OCF ever generated in the history of the company and \$207 million more than last year. On a trailing twelve month basis, operating cash flow was \$1.025 billion.

Turning to guidance, we expect our fourth quarter non-GAAP net revenue to be \$875 million, \$21 million lower than last year's. The decline is driven by the absence of last year's *Battlefield Hardline*, offset by *Plants vs. Zombies Garden Warfare 2*, *UFC 2* and *Unravel* this year. Sales of our new titles have been strong, but we believe continued weakness in game sales for last generation consoles will continue to be a headwind. Finally, we expect FX to impact sales by around \$40 million in the quarter compared to the prior year.

Non-GAAP gross margin is forecast to be 76.0%, 60 basis points above last year's.

We expect our **Q4 non-GAAP operating expenses** to be \$500 million, down slightly year on year, driven by FX, partially offset by increased investment in R&D.

This results in a **non-GAAP diluted EPS** of \$0.40 per share, as compared to \$0.39 last year.

Our Q4 GAAP net revenue is expected to be \$1.275 billion, as compared to \$1.185 billion in the prior year.

GAAP earnings per diluted share is expected to be \$1.46, as compared to \$1.19 in the prior year.

I would like to highlight one item related to income taxes that is not included in this GAAP guidance. As a result of our GAAP earnings in the U.S. over the last two years, in the fourth quarter we may record a material income tax credit due to a reversal of a significant portion of the valuation allowance we have against our U.S. deferred tax assets. This would significantly increase our GAAP earnings per share, but would have no effect on non-GAAP earnings or cash flow.

Our Q4 outlook would result in full-year non-GAAP revenue of \$4.517 billion and non-GAAP EPS of \$3.04 per share. This is an increase from our previous guidance of \$4.5 billion and \$3.00 respectively. Our anticipated full year non-GAAP operating margin remains approximately 28%.

Our Q4 GAAP guidance implies **full-year GAAP revenue** of \$4.363 billion, and fully diluted GAAP EPS of \$2.23.

Regarding cash flow for the full fiscal year, we are maintaining our operating cash flow guidance at approximately \$1.2 billion and free cash flow guidance of at least \$1.1 billion, as capital expenditure is tracking below our \$100 million estimate. Despite the considerable uncertainty around the state of the world's economy, we remain confident in our ability to continue to grow earnings and cash flow.

Q3 was another strong quarter for Electronic Arts, and a new high-water mark for cash generation.

Our strategy is to assemble a broad portfolio of games, leveraging both wholly-owned and licensed IP. This builds a deep catalog that sells for years and provides the right balance of innovation and predictability for long-term earnings and cashflow growth.

Now, I'll turn the call back to Andrew.

ANDREW CLOSING:

Thanks, Blake.

FY16 has been a groundbreaking year so far for Electronic Arts on many fronts. Stunning new games, dynamic services, and new opportunities to connect and celebrate the passion for play we share with our players.

Amazing game experiences begin with creativity and innovation, and we are focused on delivering that to players wherever they want to play. Leveraging the powerful *Star Wars* IP, we're now connected with players in live services across three games, on three platforms, and three business models. In *Star Wars Battlefront*, an HD console experience, we are building a major franchise with passionate fans. In *Star Wars Galaxy of Heroes*, a free-to-download game on mobile, we have a successful new live service. And in *Star Wars: The Old Republic*, we've demonstrated the longevity of an experience that has great IP and content that continues to deliver enjoyment for our players.

In Q4, we will go live with three new titles that further reflect the creativity, innovation and variety in our experiences today. ***Unravel*** launches on February 9, bringing Yarny's journey to life in the charming and beautiful world crafted by our partners at Coldwood Interactive. On February 23, ***Plants vs. Zombies Garden Warfare 2*** goes live, with all of its over-the-top action and hilarious characters ready for new and existing fans of this beloved franchise. Then on March 15, we return to the Octagon, with ***EA SPORTS UFC 2*** set to debut featuring new fighters, new physics and new modes for fight fans around the world.

Looking ahead to FY17, we will introduce breakthrough games from some of our biggest and most popular franchises. In Q1, we'll begin with the creative and innovative ***Mirror's Edge Catalyst*** from DICE launching in May. A great line-up of **EA SPORTS** titles are in development for next year, and we look forward to sharing more about these new experiences in the months ahead. An all-new ***Battlefield*** game from DICE will arrive in time for the holidays, we're excited

to have a new *Titanfall* experience coming from our friends at Respawn – and of course, *Mass Effect Andromeda* from the team at BioWare will launch later in the fiscal year. Players in our live services will continue to experience engaging new content, expansions and updates, and we'll have more new mobile titles as well.

Competition runs deep in the DNA of Electronic Arts, and we're thrilled to share that passion with our players through our new Competitive Gaming Division, led by Peter Moore. For years we have experienced the energy of competitive gaming through events and tournaments for our *EA SPORTS* and *Battlefield* communities. As the global gaming audience grows, we are working to deliver a best-in-class program of competitions that are accessible, engaging and entertaining at all levels – celebrating the talent and skill of our players. We are already underway, with players competing in the *Madden NFL* Live Challenge that culminates with the finals here in San Francisco during Super Bowl week. We're excited to have Peter and the team unveil more of our plans as we get into FY17.

From our new titles to our live services, new programs like Origin Access to new frontiers like competitive gaming, Electronic Arts continues to focus on putting our players first in everything we do. Games deliver on a fundamental human need for entertainment, and for each of us that means something unique and personal. A need to connect, to compete, to explore, to improve, to challenge, to share. We are focused on understanding those needs for every player, building stronger relationships so we can fulfill them at the right place and time, and unlocking the full potential of play through amazing new experiences. The commitment we have to our players continues to transform Electronic Arts, and galvanizes our efforts to deliver disruptive and innovative new ways to play.

Now Blake, Peter and I are here for your questions.

Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used

by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income, non-GAAP net income, non-GAAP diluted earnings per share and non-GAAP diluted shares. These non-GAAP financial measures are adjusted for the items referenced below, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations. The adjustments to the non-GAAP financial measures exclude the following items (other than shares from the Convertible Bond Hedge, which are included):

- Acquisition-related expenses
- Amortization of debt discount and loss on conversion of notes
- Change in deferred net revenue (online-enabled games)
- College football settlement expenses
- Income tax adjustments
- Loss on licensed intellectual property commitment (COGS)
- Restructuring and other
- Shares from Convertible Bond Hedge
- Stock-based compensation

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be adjusted in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by adjusting for certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. The Company's management team is evaluated on the basis of non-GAAP financial measures and these measures also facilitate comparisons of the Company's performance to prior periods.

In its earnings press release dated January 28, 2016, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measures to the non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2016 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "estimate" or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the

Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings, including managing online security; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2015.

These forward-looking statements are current as of January 28, 2016. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2015. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended December 31, 2015.